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SIPDIS

DEPARTMENT FOR AF/E,
LONDON AND PARIS FOR AFRICA WATCHERS

E.O. 12958: DECL: 11/06/2018
TAGS: [EMIN](#) [PGOV](#) [ER](#)
SUBJECT: ONE GOLD MINE MOVING FORWARD

REF: ASMARA 490

Classified By: Ambassador Ronald K. McMullen for Reason 1.4 (d)

¶1. (C) Summary: Most mining exploration companies have temporarily halted exploration and extraction activities in Eritrea due to difficulties securing financing. Nevsun's Bisha project, slated to begin extraction operations in 2010, is the sole exception. Eritrea's Ministry of Energy and Mines will soon issue new mining exploration licenses. End Summary.

FINANCING FOR BISHA MOVING AHEAD

¶2. (SBU) The quality of Nevsun's Bisha project in Eritrea (reftel) and its attractiveness to outside investors remains the sole bright spot in the otherwise gloomy short-to-intermediate-term mining prospects in Eritrea. The South Africa-based financial institution Industrial Development Corporation (IDC) issued a press release on October 30 stating that it will directly fund \$89 million of Vancouver-based Nevsun's Bisha mining project. The release said IDC will also find investors to fill the remaining \$161 million needed to fully fund mining operations, expected to begin in the first quarter of 2010. Nevsun's manager in Eritrea told Emboffs that attracting the remaining financing will not be a problem, but other lenders have yet been identified.

FINANCIAL DIFFICULTIES FOR OTHER MINING COMPANIES

¶3. (C) Mining contacts in Eritrea regularly tell Emboffs that global financial conditions have dried up capital available for projects in politically risky Eritrea. Australian Sub-Saharan Resources temporarily pulled nearly all expatriate staff out of Eritrea in an effort to control costs. Vancouver-based Sunridge Gold Corporation has only \$6 to \$8 million cash on hand, and curtailed all exploration activities in Eritrea for at least 6 months. Other mining companies in Eritrea are experiencing similar financial constraints.

NEW MINING LICENSES GRANTED SOON

¶4. (SBU) Eritrea's Minister of Energy and Mines told the ambassador the GSE will approve several new mining licenses in the next few weeks, adding that American-based mining

companies are welcome in Eritrea (no American mining companies are currently operating in Eritrea). Other Embassy mining contacts told Emboffs the GSE will grant most of these licenses to companies already operating in Eritrea, including Sunridge, Sub-Sahara, and Vancouver-based Sanu Resources. In one of the bids, Sunridge seeks to revive an old Italian potash mine in the Danakil Depression, 150 miles southwest of Asmara. Embassy mining contacts believe the new mining sites will contain a mixture of mostly gold, copper, and zinc, which is common for Eritrean mining deposits.

¶5. (C) Comment: The GSE expects hard currency revenues from Eritrea's nascent mining industry to alleviate the country's chronic and economically debilitating hard currency shortage. The GSE's 40% stake in the \$1 billion Bisha project will go a long way toward that end, but global financial conditions have delayed or diminished the economic prospects of other mining projects. Until mining companies begin extracting Eritrea's mineral wealth, the GSE will remain cash-strapped and have difficulty financing what most other countries consider normal government operations. End Comment.

MCMULLEN